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C O N F I D E N T I A L SECTION 01 OF 02 CARACAS 000504

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ENERGY FOR CDAY, DPUMPHREY, AND ALOCKWOOD
NSC FOR DTOMLINSON

E.O. 12958: DECL: 01/12/2017

TAGS: [EPET](#) [ENRG](#) [EINV](#) [ECON](#) [VE](#)

SUBJECT: EXXONMOBIL: OUT BY JULY 1?

Classified By: Economic Counselor Andrew N. Bowen for Reason 1.4 (D)

11. (C) SUMMARY: ExxonMobil (XM) appears to be edging closer to going to arbitration with the BRV over the migration of the Cerro Negro strategic association. However, it still holds out hope that it will be able to sell its stake in the association. XM does not expect to be in Venezuela by July 1, 2007. The company has formed transition committees for each of the major operations areas and has presented PDVSA with a master plan for the transition. In addition, it has formed a new subsidiary and will transfer its employees and operations to it before the May 1 deadline. END SUMMARY

XM'S CURRENT OPTIONS

12. (C) Petroleum Attache (Petatt) met with senior XM executives on March 6 to discuss the current state of negotiations between the BRV and XM for the migration of the Cerro Negro strategic association to a PDVSA-controlled joint venture. The executives stated XM has four basic options: go to arbitration (presumably through ICSID); sell its stake to PDVSA; sell its stake to a third party; or migrate. According to the executives, arbitration looks like the most likely outcome at the present time. They stated the chances of XM migrating were close to zero. The executives stated XM is still waiting to start meaningful negotiations with BRV and PDVSA officials.

13. (C) The executives noted that a sale to PDVSA or a third party would be the optimal solution. XM is continuing to raise the issue with PDVSA. A sale to PDVSA would not necessarily involve cash. The executives stated PDVSA has expressed an interest in selling Citgo refineries in the United States, including the Lake Chalmette refinery. XM is a partner with PDVSA in the Lake Chalmette refinery. XM is interested in pursuing a swap with PDVSA of its stake in the upgrader for one or more refineries. A swap would also have

the benefit of avoiding PDVSA's insistence that it will only compensate oil companies for their stakes in the strategic associations based on book value. PDVSA's refineries' book value, as in the case of the strategic association upgraders, is far lower than their actual market value due to depreciation and age. As a result, it would be relatively easy to carry out a swap using the book values of the upgrader and one or more refineries.

14. (C) XM is also ready to sell to an interested third party. The company has prepared a data room and can advertise the upgrader in a matter of minutes to over 5,000 companies via Schlumberger's electronic network. XM executives in the past have stated they are willing to sell to Chinese, Indian, or Russian oil companies. (COMMENT: It is our understanding that the Russian oil company Lukoil has made it clear that it is not interested in investing in the Faja. Contacts have stated the Russians are very frustrated with the BRV and PDVSA. ConocoPhillips, the operator of the Petrozuata and Hamaca strategic associations, has a 20% stake in Lukoil. END COMMENT)

THE ROAD TO MAY 1

15. (C) XM has made it clear that it will cede operational control of Cerro Negro to PDVSA on May 1. XM executives stated they believe XM will be completely out of Venezuela by July 1. In order to facilitate an orderly transition, XM has formed transition committees with the relevant PDVSA counterparts for major operational areas such as information technology and human resources. XM has also submitted a master plan for the transition of operational control to

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PDVSA. Although the oil nationalization decree called for the formation of a transition committee that would attend Cerro Negro board meetings by March 5, an XM executive told Petatt on March 6 that the committee has not been formed yet.

16. (C) XM has also formed a new subsidiary that will assume responsibility for staff and operations from OCN, the XM subsidiary that was the operator of Cerro Negro. OCN will still retain its rights to arbitration. XM executives stressed that they will completely give up operational control on May 1 in accordance with the oil nationalization decree. XM does not want to find itself operating Cerro Negro after May 1. The last thing XM wants is to lose operational control but continue carrying out operations under PDVSA control. Such a situation would subject XM to potential liability if any sort of mishap occurred.

(COMMENT: XM's concerns strike us as quite reasonable. During the operating service agreement migration, oil companies continued running fields in a state of legal limbo. At one point, the joint ventures did not exist and the BRV had stated that the service agreements were invalid. When asked about insurance, companies admitted that they were not sure what their potential liability was or the status of their insurance policies. END COMMENT).

THE OTHERS

17. (C) When asked if the other international oil companies would migrate under the BRV's terms, an XM executive replied he believed four of the other five companies (Chevron, BP, Total, and Statoil) would migrate at the end of the day. He said it was possible that ConocoPhillips would hold firm.

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